Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing a Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Lifeline and Link-Up	)	WC Docket No. 03-109

FURTHER COMMENTS of the SMALL COMPANY COMMITTEE OF THE LOUISIANA TELECOMMUNICATIONS ASSOCIATION

Louisiana Rural Telephone Companies
Sponsoring These Comments:

Cameron Telephone Company, LLC
Campti-Pleasant Hill Telephone Co., Inc.
Delcambre Telephone Co., LLC
East Ascension Telephone Co., LLC
Elizabeth Telephone Company, LLC
Kaplan Telephone Co., Inc.
Lafourche Telephone Co., LLC
Northeast Louisiana Telephone Co., Inc.
Reserve Telephone Co., Inc.
Star Telephone Co., Inc.

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of the
SMALL COMPANY COMMITTEE OF THE
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Louisiana Rural Telephone Companies

Members of the Small Company Committee of the Louisiana Telecommunications Association (the "SCC")[1] hereby submit these Further Comments in

[1] The following members of the Small Company Committee of the Louisiana Telecommunications Association are sponsoring these Further Comments: Cameron Telephone Company, LLC, Campti-Pleasant Hill Telephone Co., Inc., Delcambre Telephone Co., LLC, East Ascension Telephone Co., LLC, Elizabeth Telephone Company, LLC, Kaplan Telephone Co., Inc., Lafourche Telephone Co., LLC, Northeast Louisiana Telephone Co., Inc., Reserve Telephone Co., Inc., and Star Telephone Co., Inc. (collectively, the "SCC"). *The following members of the SCC do not join in or sponsor these Further Comments:* CenturyTel of Chatham, LLC, CenturyTel of Central Louisiana, LLC, CenturyTel of East Louisiana, LLC, CenturyTel of Evangeline, LLC,

response to the Federal Communications Commission's ("FCC" or "Commission") Further Inquiry Into Certain Issues in the Universal Service – Intercarrier Compensation Transformation Proceeding released August 3, 2011 in the above-referenced dockets.

I. INTRODUCTION.

In response to the FCC's February 9, 2011 Universal Service and Intercarrier Compensation Transformation Notice of Proposed Rulemaking ("USF-ICC Transformation NPRM"), a number of parties have proposed specific proposals for reform, including a proposal by the State Members of the Federal-State Universal Service Joint Board ("State Members"), the "RLEC Plan" put forward by the Joint Rural Associations, and the "America's Broadband Connectivity Plan" filed by six Price Cap Companies ("ABC Plan").[2]

The SCC is comprised of the Rural Telephone Companies (47 U.S.C. § 153(37)) providing service in the rural areas of Louisiana. The SCC members provide a wide array of high quality communications services to rural consumers in Louisiana and are an engine for economic development in the areas they serve. The SCC members have deployed their networks to ensure that service is available to all known inhabited rural residents in some of Louisiana's most remote and difficult to serve areas. These networks also provide the necessary infrastructure on which wireless, VoIP and satellite communications providers depend. Any reforms to the existing Universal Service Fund ("USF") High-Cost and Intercarrier Compensation ("ICC") mechanisms adopted by the

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CenturyTel of North Louisiana, LLC, CenturyTel of Northwest Louisiana, Inc., CenturyTel of Ringgold, LLC, CenturyTel of Southeast Louisiana, Inc., and CenturyTel of Southwest Louisiana, LLC.

[2] *See* Further Inquiry at p. 1.

Commission must not compromise the SCC members' ability to continue to deploy the capital necessary to offer broadband telecommunications and information services.

The SCC members participating in these Further Comments are concerned that certain proposals as described in the FCC's Further Inquiry may have the unintended consequence of reducing the availability, affordability, and/or sustainability of services for consumers in the most rural areas of Louisiana. Any reforms that the FCC undertakes should be carefully crafted to address needed improvements in existing programs, and to ensure that rural consumers have ongoing access to broadband services that are reasonably comparable in price and quality to those available in urban areas.

Any reform plan must also ensure that network providers – particularly those with carrier of last resort obligations – retain the ability and incentive to invest in and upgrade their facilities in response to consumers' growing demands and evolving needs.

II. FUNDING MECHANISMS SUCH AS COST MODELS ARE UNWORKABLE AND WILL CAUSE USF FUNDING TO BECOME UNSTABLE AND UNPREDICTABLE.

The Further Inquiry states that both the State Members and the ABC Plan would use a forward-looking model to determine support amounts for areas where there is no private sector business case to offer broadband.[3] The Further Inquiry seeks comment on what information would need to be filed in the record regarding the CostQuest Broadband Analysis Tool ("CQBAT Model") for the Commission to consider adopting it, as proposed in the ABC Plan.

The development of such a model should be open and transparent and should provide ample opportunity for interested parties to participate and verify model results.

[3] *See* Further Inquiry at p. 3.

The CQBAT Model has not been available for review, analysis and testing. Therefore, it is not possible to fully assess what information needs to be filed into the record regarding the CQBAT Model in the limited time frame established by the Commission in the Further Notice. In addition, the impacts of the proposed use of a model are largely unknown without testing and exercise of the model under differing scenarios.

The SCC members oppose the use of forward-looking models to determine support amounts for the disbursement of funding to support the deployment and operation of broadband networks in their service areas. It is not clear whether even advanced modeling techniques can account adequately for the needs associated with providing broadband in rural and high-cost areas. Further, cost models can be manipulated to achieve desired results based on model inputs.

The Commission should not create an unworkable scenario similar to the adoption of the questionable model that is the subject of the 10th Circuit Remand[4] or the utilization of the "identical support rule" and the resulting distribution of universal service funding without any regard for actual costs and sufficiency.

Previously, the Commission requested comments concerning the use of cost models for determining USF support in its prior NOI and NPRM regarding the Connect America Fund ("CAF").[5] In response to the Commission's previous request for comments, the Joint Comments of the Rural Association Groups[6] stated that cost models

[4] *Qwest Communications v. FCC*, 398 F.3d 1222 (10th Cir. 2005).
[5] *See*, Connect America Fund, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 05-337, 25 FCC Rcd 6657 (2010) ("NOI and NPRM") at paras. 17, 32.
[6] The Rural Association Group that sponsored joint comments in the previous NOI and NPRM regarding the Connect America Fund was comprised of the National Exchange Carrier Association, Inc., National Telecommunications Cooperative Association,

(1) are generally not capable of determining specific, predictable and sufficient USF support for rural areas; (2) are not capable of measuring the support needs of RLEC service territories where the costs of providing service can vary considerably based on each area's unique challenges; and (3) are likely to produce funding levels for small rural service territories that significantly undercompensate or overcompensate service providers based on particular circumstances, leading to significant service dislocations.[7]

Rural ILECs are the only carriers that have made significant commitments and deployed facilities to serve many of the nation's most remote areas. In light of this progress and the fact that Rural ILECs serve as carriers of last resort throughout some of the hardest-to-serve places in the country, the Commission should proceed with extreme caution in these study areas and avoid impeding the significant broadband deployment that these carriers have established over the course of the past several years. The best way to deploy broadband in unserved areas is to take what has worked and recalibrate it as needed to support the new objective, instead of risking future broadband deployment and services to untested mechanisms such as forward-looking models.

The existing support mechanism for rural rate of return ILECs, based on actual embedded costs, has been successful in achieving the Act's universal service objectives. This approach has resulted in the deployment of universal service with specific

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Organization for the Promotion and Advancement of Small Telephone Companies, Western Telecommunications Alliance, the Rural Alliance and Concurring Associations.

[7] *See*, Joint Comments of the National Exchange Carrier Association, Inc., National Telecommunications Cooperative Association, Organization for the Promotion and Advancement of Small Telephone Companies, Western Telecommunications Alliance, the Rural Alliance and Concurring Associations, In the Matter of Connect America Fund, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 05-337, at pp. 52-59 (July 12, 2010).

encouragement to rural incumbent carriers to deploy networks with advanced service capabilities. The process is transparent as every dollar of funding can be associated with actual expenses incurred to provide service, and the funding of every expense is subject to the Commission's exercise of reasonable discretion in the determination of whether the expense is prudent, just and reasonable.

Therefore, rural rate of return carriers must retain the opportunity to obtain support based on their actual costs. No model could ever sufficiently predict in all instances and circumstances the costs of providing universal service under all circumstances. As the Commission considers utilizing forward-looking models as a potential funding mechanism for universal service in the deployment of broadband technology, the Commission must carefully consider the potential impact on the preservation and advancement of universal service.

III. THE COMMISSION SHOULD PROCEED CAUTIOUSLY IN CONSIDERING ANY PROPOSAL TO REDUCE OR ELIMINATE USF SUPPORT IN SO-CALLED "COMPETITIVE" AREAS.

The Further Inquiry seeks comment concerning the elimination of support for areas with an unsubsidized competitor.[8] The FCC notes that the RLEC Plan suggested that the Commission could establish a process to reduce an incumbent's support if another facilities-based provider proves that it provides sufficient broadband and voice service to at least 95 percent of the households in the incumbent's study area without any support or cross-subsidy. This proposal is unworkable and contrary to the public interest.

This flawed proposal does not address how the Commission would determine whether a "non-subsidized provider" is present in a particular area, and whether

[8] Further Inquiry at p. 6.

eliminating USF support in so-called "competitive" areas within a study area would increase demand pressures on the size of the fund due to the impact on outlying areas. The Commission cannot pursue such modifications to the calculation and distribution of high-cost USF support when those who propose such reforms do not provide details of how to accomplish it or any meaningful examination of the relative costs and benefits of implementing it.

As explained by the Rural Associations in their comments:

> [I]if this concept were adopted and a competitor were operating without support or cross-subsidy of any kind – i.e., if the area is truly "economic" to serve when evaluated on a stand-alone basis – the Commission would proceed to disaggregate the relevant ILEC's study area and allocate costs in some manner between the "hole" in which the competitor exists and the "donut" that continues to be served solely by the ILEC without a competitive presence. But given the substantial likelihood that the competitor will operate in the most densely populated (i.e., lowest-cost) portion of any given study area, any disaggregation and re-allocation of costs will almost certainly result in an *increase* in support for the ILEC, as the benefits of averaging associated with the lower-cost "hole" are eliminated and the higher costs of serving the "donut" must be taken fully into account on a stand-alone basis.[9]

The Commission cannot conclude that an area is "economic" to serve or that a competitor is really "non-subsidized" simply because that competitor does not happen to obtain ***USF*** support for that area. The flawed premise that funding should no longer be available where a competitor exists ignores situations where there may be cross-subsidization between a competing carrier's urban and rural operations. Cable competitors can balance rates between urban and rural markets, much like the historical

[9] Comments of the National Exchange Carrier Association, Inc.; National Telecommunications Cooperative Association; Organization for the Promotion and Advancement of Small Telecommunications Companies; Western Telecommunications Alliance; and Concurring Associations (the "Rural Associations") at p. 51 (April 18, 2011).

rate balancing of the Regional Bell Operating Companies between urban and rural markets. Cable competitors may even offer lower rates in rural areas than rates available in urban markets because they are able to offset the lower rural rates with greater margins from their more concentrated urban markets. As rural ILECs typically do not have the ability to rate balance between rural and urban markets, they are placed at a competitive disadvantage. Eliminating the federal subsidies to rural ILECs under such circumstances could place rural ILECs in positions where they are competing with carriers that have internal support mechanisms.

Additionally, any unsubsidized carrier should be required to provide service to at least as much of the service area as the incumbent to avoid potential problems discussed above. If the objective is to identify areas in which a "business case" exists to provide service without support, the Commission must take into account not only explicit support that might be received by a provider for operations in that area, but also the extent to which a competitive provider is cross-subsidizing its operations in an otherwise "uneconomic" area through operations in more densely populated and profitable areas. Therefore, if the Commission chooses to proceed in this fashion – notwithstanding the substantial concerns and complete lack of cost-benefit analysis associated with doing so – any competitor seeking to establish a competitive "donut hole" must be required to present clear and convincing evidence demonstrating that the area is indeed "economic" of its own accord and can support a *stand-alone* business plan.

The ILEC or other high-cost support recipient should also be provided with a reasonable and meaningful opportunity to evaluate the claims made in any such petition, and to present evidence refuting any of the facts set forth therein. The state commissions are in a better position to determine whether competition exists in an ILEC supported study area.

If the Commission proceeds to implement a plan to eliminate support for areas with an unsubsidized competitor, it must specifically define the consequences of a competitive area existing within a given study area. The Rural Associations explained in their comments that:

> Specifically, the Commission must establish whether the high-cost support recipient will lose all support in the "hole" or only a portion of that support. If it will lose all support in the "hole," then the ILEC or other support recipient must be permitted to disaggregate its costs and recalibrate its support for the other areas it serves as described in the preceding pages of this section – even though that may likely lead to an increased need for high-cost support as described above.[10]

To the extent an ILEC were to no longer receiving support in a competitive area following disaggregation, it should have the choice to be released from any and all obligations associated with serving as a carrier of last resort ("COLR") in that area. In such case, the Commission would need to consider the complications arising from such a result. For example, the Rural Association commented that:

> If, for example, the carrier that is no longer receiving support in the "hole" is excused from COLR obligations, it would appear to put the Commission in the position of effectively having to preempt a state's COLR designation, and it is unclear what authority exists for the Commission to do so.[11]

Alternatively, and as explained by the Rural Association in its comments, the Commission might provide the ILEC the option to retain a reduced level of support associated with operations in the "competitive" area in recognition of continuing COLR

[10] *Id*. at p. 54.
[11] *Id*. at p. 55.

obligations. Any such reduction should place a value on the continued service as a COLR by the support recipient and provide some level of funding to sustain those obligations.[12] However, it is essential that the Commission define with precision what level of continuing support would be provided. A carrier being tasked with continuing operations as a COLR cannot be expected to comply with unfunded mandates to deliver service in a high-cost area and meet its COLR obligations where it receives inadequate support to serve all customers in that area.[13]

In that same spirit, as stated in the SCC's previous comments herein, the Commission should phase out the current identical CETC support rule. Costs incurred by ILECs and CETCs in providing universal service in rural areas are not identical, which leads to inequitable distribution of support to service providers.[14]

Finally, as explained by the SCC in its prior filed comments, if the Commission determines to proceed with eliminating or reducing support for areas with an unsubsidized competitor, the Commission must ensure that any reduction or elimination of funding does not affect the ability of carriers to recover existing investments made under current rules.

Rural ILECs have efficiently invested in their networks under the current rules and pursuant to their COLR obligations to make quality voice service ubiquitously

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[12] *Id*.
[13] *Id*. at pp. 55 – 56.
[14] "[I]t is as clear as clear can be that the costs of investing and maintaining wireless and wireline infrastructure are inherently different. I believe that wireless can and should be a part of Universal Service, but the time has come to put an end to the irrational and costly system of supporting wireless carriers based on the cost of wireline incumbents." Statement of Commissioner Michael J. Copps before the Senate Commerce Committee (Mar. 1, 2007).

available throughout their territories *and* to offer broadband services to as many of their customers as possible. A carrier that has invested in what is subsequently considered a competitive area and that needs support to recover investments made in good faith must not be penalized pursuant to rules and limitations developed after the fact.

Thus, the Commission should ensure that any reduction or elimination of funding applies only to investments and associated operating expenses made or incurred on a prospective basis. Any elimination or reduction of funding that is being used to recover the cost of existing investment in a competitive area would violate the core statutory principles that require USF funding to be predictable and sufficient, and would potentially constitute an unlawful taking of property.

IV. THE COMMISSION MUST REJECT PROPOSALS WHICH WOULD REQUIRE RURAL ILECS TO CONVERT TO INCENTIVE REGULATION.

The Commission should not adopt reforms that require rural ILECs to shift to incentive regulation at the federal level. Existing rate of return ("RoR") regulatory methods have played a key role in efficiently achieving today's levels of service quality and broadband deployment in rural ILEC service areas, and can continue to do so in a changing environment.

RoR regulation has enabled rural ILECs to invest in network and infrastructure upgrades despite limited financial resources and limited access to larger, national capital markets. RoR regulation allows rural ILECs to recover a prescribed rate of return on top of recovering their reasonable operating expenses, allowing these smaller carriers to serve high-cost and less populated rural areas. These factors, among others, make RoR regulation ideal for smaller rural carriers, as this structure provides these rural ILECs the necessary assurance that their investment costs will be recovered and their loans can be repaid despite the high investment requirements of providing service to hard-to-serve rural areas.

Notably, proponents of mandatory incentive regulation do not claim that the movement to incentive regulation would accomplish the Commission's broadband goals – namely, the improved deployment of broadband facilities and services to ***all*** Americans. In addition, the abandonment of RoR regulation at the federal level could have the adverse effect of impeding access of rural ILECs to capital. The stability and certainty of RoR regulation allows rural ILECs to provide their investors and lenders with assurances of cost recovery and debt service in order to obtain the financing necessary to invest in infrastructure. To ensure that the Commission's goals are attainable, rural ILECs must be able to recover their increased costs incurred in serving the remote, sparsely populated, high-cost areas in rural America. Shifting these companies to incentive regulation at the federal level would not satisfy the Commission's broadband goals.

V. THE SCC MEMBERS OPPOSE PROPOSALS WHICH WOULD IMPLEMENT RATE BENCHMARKING AND TOTAL COMPANY EARNINGS REVIEW.

In the USF-ICC Transformation NPRM, the Commission sought comment on the use of a rate benchmark to encourage states to rebalance their rates and ensure that universal service does not subsidize carriers with artificially low rates.[15] In the Further Inquiry, the Commission is considering proposals to develop a benchmark for voice service and reduce a carrier's high-cost support by the amount that its service rate falls

[15] Further Inquiry at p. 7.

below the benchmark.[16] Under such an approach, the Commission states that it would reduce intrastate universal service support (specifically high cost loop support for rural carriers) dollar for dollar during the transition to the CAF to the extent the company's local rates do not meet the specified benchmark.[17] In addition, the State Members recommend that a Provider of Last Resort Fund include a total company earnings review to limit a supported carrier from earning more than a reasonable return.[18] The Commission seeks comment on the mechanics of conducting an earnings review to ensure that universal service is not providing excessive support.[19]

The SCC members do not support the use of rate benchmarks or an earnings review mechanism. The SCC members are regulated by the Louisiana Public Service Commission ("LPSC") under Price Cap Plans, whereby their regulated rates are capped and allowed to increase only by certain prescribed amounts per year. Even carriers that are subject to interstate rate of return regulation can be subject to incentive regulation at the state level or some other form of intrastate rate regulation that does not ensure rate increases every time costs increase or demand decreases.[20]

As price cap companies at the state level, the SCC members are already making retail price point decisions and any further increases on their end user rates to offset reductions in USF support could result in loss of customers, which in turn could result in a smaller and smaller customer base upon which to seek cost recovery. This is not a sustainable scenario, as end user retail rates cannot be raised sufficiently to recover the

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[16] *Id*.
[17] *Id*.
[18] *Id*. at pp. 7 – 8.
[19] *Id*.
[20] *Id*. at note 53.

loss of USF support. Moreover, increases in charges to rural consumers (whether in the form of rate increases or subscriber line charge increases) must be limited to ensure that the resulting charges to rural consumers are "reasonably comparable" to urban areas as envisioned by the Act.

VI. THE SCC MEMBERS OPPOSE ELIMINATION OF CORPORATE EXPENSES FROM USF SUPPORT.

Any proposal to reduce or eliminate universal service support for corporate overhead expenses is unfounded. Corporate operations expenses are currently eligible for recovery through HCLS, LSS, and ICLS. The SCC disagrees with the Commission's statement regarding corporate expenses as stated in paragraph 197 of its USF-ICC Transformation NPRM that:

> In the Universal Service First Report and Order, the Commission agreed with commenters that these expenses do not appear to result from cost inherent in providing telecommunications service, but rather may result from managerial priorities and discretionary spending.[21]

To the contrary, corporate operations activities are directly related to the provision of sustainable and affordable service in high-cost areas, and the elimination of corporate operations expense recovery from USF support could result in a proportionately higher per line rate increases. The SCC concurs in the comments of GVNW Consulting that it is "quite unlikely that a company could provide telecommunications services under current regulation without incurring costs associated with accounting, management, insurance, legal, and regulatory compliance."[22] As explained by GVNW:

> We hope the Commission has not made this proposal to eliminate corporate expense from the support mechanisms as a result of a misguided

[21] USF-ICC Transformation NPRM at ¶ 197.
[22] Comments of GVNW Consulting, Inc., p. 11 (April 18, 2011).

> belief that all corporate expenses are discretionary. We recommend the Commission seriously evaluate how long a regulated telecommunications provider could continue to provide telecommunications services if it abandoned all activities that result in charges to the corporate expense. We also ask the Commission to review the proceedings that developed the current allowable level of corporate expense as the Commission in prior rulings clearly recognized that some level of corporate expense was required to provide the services.[23]

As explained by GVNW, basic corporate operations functions that must occur in a going concern include salaries of general managers and support staff, board of directors costs, financial and regulatory accounting functions, annual audit requirements, cost separations studies, maintaining relations with government and regulators - including preparing and presenting information to FCC and State Commissions such as CALEA and CPNI compliance, national and state association dues that create efficiencies for small carriers, information management tasks and necessary legal costs.[24]

The Act states that a carrier that receives support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.[25] The provision, maintenance and upgrading of facilities and services require company personnel to plan, monitor, research technology and otherwise perform executive decisions and accounting functions and procedures to ensure compliance with rules and regulations for the provision of supported services and customer satisfaction with the services.[26] As explained by Warinner, Gesinger & Associates:

> It is inconceivable that the FCC would propose to prohibit a company from recovering the cost of its corporate expenses from each of its revenue sources and there is simply no precedent established by any regulatory

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[23] *Id*.
[24] *Id*.
[25] *See* 47 U.S.C. § 254(e).
[26] *See* Comments of Warinner, Gesinger & Associates, LLC at p. 20 (April 18, 2011).

> authority to summarily remove corporate expenses from a regulated utility's cost of providing regulated services.[27]

Corporate expenses are a necessary cost associated with the provision of USF supported services. Included in the Part 32 General and Administrative ("G&A") expense account are job functions and related duties that are necessary for the successful and efficient operation of a rural telecommunications company. Included in the Part 32 account for corporate operations are the salaries and benefits of personnel who are involved in performing necessary job functions and duties, including the chief executive officer or company general manager, chief financial officer and/or controller, accounting staff, legal staff or outside legal consultants, regulatory staff or regulatory consultants and human resources personnel.[28] The personnel listed above perform tasks that are required by law and are legitimate costs of doing business as a regulated utility. As such, these costs should be included in the recovery calculation process used by the FCC and State Commissions as legitimate business expenses. Therefore, the SCC opposes the Commission's proposal to reduce or eliminate universal service support for corporate operations/overhead expenses.

VII. REFORM MUST NOT USURP STATE AUTHORITY.

The SCC urges the Commission not to adopt policies or regulations which would attempt to undermine the role that state commissions currently play in the provision of universal service. The USF-ICC Transformation NPRM acknowledges that, at most, the Commission's authority with respect to intrastate traffic is limited to establishing a

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[27] *Id*.
[28] *Id*. at pp. 20 – 21.

methodology by which state commissions can set rates.[29] The Commission cannot mandate a specific rate for any intrastate traffic, nor can it prescribe a results-oriented methodology that effectively leads to a pre-determined rate – or even a zero rate as would apply under a bill-and-keep regime for intercarrier compensation.[30]

Therefore, the Commission should not employ a results-oriented approach pursuant to sections 251 and 252 in an attempt to unify all intercarrier rates, including those for intrastate calls, under the framework of reciprocal compensation. As explained by the Rural Association:

> The Commission appears to recognize that the legal foundation on which this approach rests is, at best, uncertain and would most likely face a robust legal challenge. In light of its clear legal shortcomings, such a unilateral, top-down federal mandate would only complicate and delay the Commission's efforts at long-term ICC reform, perpetuate the substantial uncertainty that already surrounds the ICC regime, and likely fail upon ultimate appeal.[31]

The Commission should pursue reform in cooperation with states based on the existing jurisdictional framework, and should refrain from adopting any reforms which would usurp the state commissions' authority or limit their discretion.

In addition, the Commission must recognize that both interstate and intrastate access charges are a significant source of revenues relied upon by rural carriers to recover costs they incur in the provision of universal service. To the extent access charge revenues are reduced or eliminated, a source of cost recovery is reduced or eliminated. When either access rates are reduced or the utilization of access services is diminished, there is no reduction in the real costs of universal service incurred by rural carriers.

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[29] NPRM ¶¶ 512-516; *see also* 47 U.S.C. § 252(d)(2).
[30] *See* Rural Association Comments at note 27 (April 18, 2011).
[31] Rural Association Comments at p. 20 (April 18, 2011).

In order to recover the revenues that a rural provider currently obtains from the provision of access services, there are only two existing alternative sources: increased charges to end users and increased funding from the USF. As noted, any increases to charges to rural consumers must be limited to ensure that the resulting charges to rural consumers are "reasonably comparable" to urban rates as prescribed by the Act.

VIII. ANY ICC REFORM MUST ENABLE RURAL ILECS TO CONTINUE OFFERING HIGH-QUALITY AND AFFORDABLE BROADBAND IN RURAL, HIGH-COST AREAS.

Because the rural ILEC members of the SCC rely on USF and ICC revenues to offset the high costs of deploying services to their rural customers, the SCC reiterates that reform of the USF and ICC mechanisms must include a measured approach that enables stakeholders to adapt to changing circumstances and minimize disruptions.

ICC reforms must enable rural carriers to continue to focus on broadband deployment and adoption without drastic cuts in ICC rates that would put rural consumers and businesses at risk of service disruptions, declines in service quality, or drastic changes in rates. For the same reasons as discussed above, any reforms must recognize the hybrid nature of today's federal-state USF and ICC mechanisms, and balance the need for both federal and state involvement in broadband and high-cost support administration. Reforms should rely on in-place accounting and ratemaking mechanisms so that they are workable for the long term.

Should ICC reform reduce ICC rates for rural ILECs, then the Commission must also implement sufficient recovery mechanisms for rural ILECs to recover these lost revenues in order to allow these carriers to continue to deploy their broadband networks. As pointed out in the April 18, 2011 comments of CenturyLink:

> [I]f ICC rate reform is not accompanied with adequate recovery of lost ICC revenue, it will prevent carriers from being able to make the investment necessary to build out broadband networks to reach unserved areas and at sufficient standards to support advanced services. If the Commission took this path, it would only be effectively creating an unfunded mandate for broadband deployment all while leaving in place existing carrier COLR obligations. Moreover, to the extent broadband build-out did continue, many consumers would be priced off the network undermining the Commission's broadband adoption policy goals. While consumers should properly bear part of the cost of deploying these broadband networks, they should not be asked to pay more than their fair share. And, others that access and profit from the ubiquitous public telecommunications network must also pay for their fair share of that network. Likewise, if the Commission moves too quickly and too far in reducing ICC rates, each of these impacts is only amplified. Conversely, the Commission can minimize these risks by taking a more modest approach to ICC rate reform in the first place.[32]

Therefore, any ICC reforms that reduce ICC rates for rural ILECs must be accompanied with a sufficient recovery mechanism that allows rural ILECs to recover lost ICC revenues to continue to deploy broadband networks to customers in high-cost, rural areas.

IX. EXISTING USF LEVELS ARE INSUFFICIENT TO ACCOMPLISH THE GOALS SET FORTH IN THE NATIONAL BROADBAND PLAN.

Many of the proposals mentioned in the Further Inquiry and many of the proposals outlined in the USF-ICC Transformation NPRM assume that the FCC's national broadband goals can be satisfied at existing universal service support levels. These proposals ignore the critical fact that current levels of high-cost USF support may not provide sufficient funding to accomplish the nation's broadband goals, and any proposal to cap existing support would only exacerbate this insufficiency, putting rural customers at risk of being left behind the Commission's promotion of broadband deployment. Rather than balancing competing goals, current concerns over fund

[32] Comments of CenturyLink at p. 50 (April 18, 2011).

constraints are being favored over national deployment goals and very clear legislative directives about the USF.

By its own terms, the primary goal of the USF-ICC Transformation NPRM is to "ensure that all Americans have access to modern communications networks so that we can continue to work together to build on the past success of universal service."[33] The Commission must balance between its desire to minimize contribution amounts imposed on consumers nationwide and the need to avoid detrimental impacts on rural consumers and to achieve reasonable comparability between rural and urban service.

To ensure sufficient universal service funding now and in furtherance of the Commission's broadband goals, the Commission should take immediate action to stabilize USF mechanisms by broadening the base of USF contributors to include broadband access providers, who collectively represent a large and growing source of connections and revenues as well as overall network utilization. Given that the Commission is considering reforming the high-cost program to directly support broadband, requiring contributions from broadband service providers would more fairly distribute the total cost of the USF. As stated by the Rural Associations in their April 18, 2011 comments:

> [T]he Commission must balance between its desire to minimize contribution burdens imposed on households nationwide and the need to avoid detrimental impacts on rural consumers as well as achieving reasonable comparability between rural and urban areas. Tomorrow's broadband networks cannot be built on a crumbling foundation of today's narrowband revenues. At some point, the Commission must confront the fact that high-cost support at current levels will not provide sufficient funding to accomplish the nation's broadband goals….

[33] USF-ICC Transformation NPRM at ¶ 13.

> Given that the high-cost program is being reformed to directly support broadband, requiring contributions from all broadband service providers, over all platforms, would more fairly distribute the total cost of the USF. It would also permit the size of the USF to grow without imposing an unreasonable universal service fee on any assessable communications service.[34]

The Commission should take action on this issue at the earliest possible opportunity to ensure that existing funding levels can sustain current deployment. Further, the Commission should refrain from basing all universal service reform decisions on the assumption that achievement of national broadband deployment and adoption goals can be accomplished based on current insufficient funding levels.

X. CONCLUSION.

The SCC cautions the Commission that any reform plan that undermines the ongoing viability of the high-cost universal service support and intercarrier compensation mechanisms should not be enacted. Any perceived benefits of reform will be quickly forgotten if consumers and policymakers are forced to reconcile the impacts of a reform plan with degradation in service quality, reliability, availability or affordability.

[34] Comments of Rural Associations, pp. 90 – 92 (April 18, 2011).

Respectfully submitted,

THE SMALL COMPANY COMMITTEE OF THE LOUISIANA TELECOMMUNICATIONS ASSOCIATION

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